Mattel, Inc.

A leader in the production and distribution of toys, games, electronic products, books, hobby products and family entertainment.

Toys and Hobbies

Mattel Toys U.S.A.

Mattel Toys International

Monogram Models, Inc.

Electronics

Mattel Electronics

Publishing and Printing

Western Publishing Company, Inc.

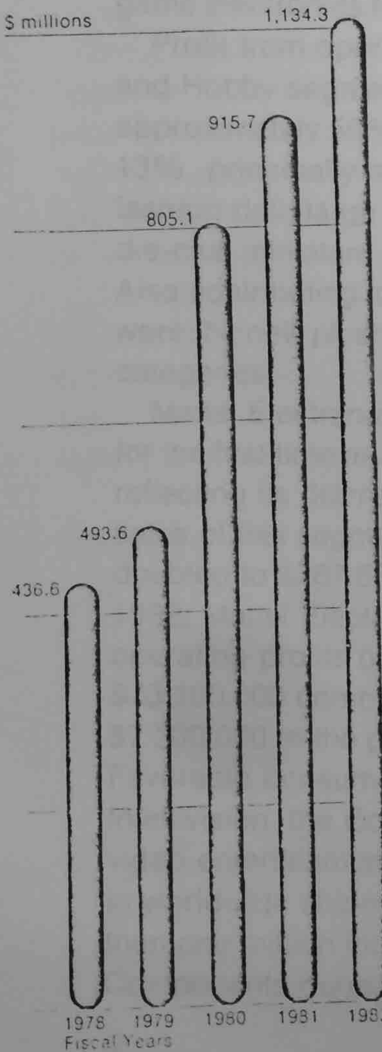
Entertainment

Circus World, Inc. Florida

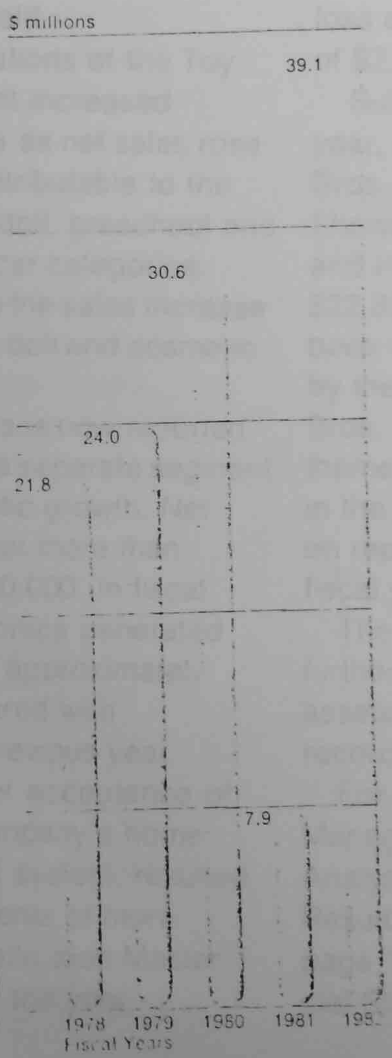
Financial Highlights

Operating Results		
Net Sales	$1,134,252,000	$915,690,000
Net Income	39,102,000	7,898,000
Common Dividends	4,950,000	4,824,000
Financial Position		
Working Capital	235,037,000	215,502,000
Total Assets	647,434,000	550,493,000
Shareholders' Equity	235,830,000	207,299,000
Per Share		
Net Income		
Primary	$1.68	$ .12
Fully Diluted	1.55	.12
Common Dividends	.30	.30
Shareholders' Equity	8.75	7.29

Net Sales

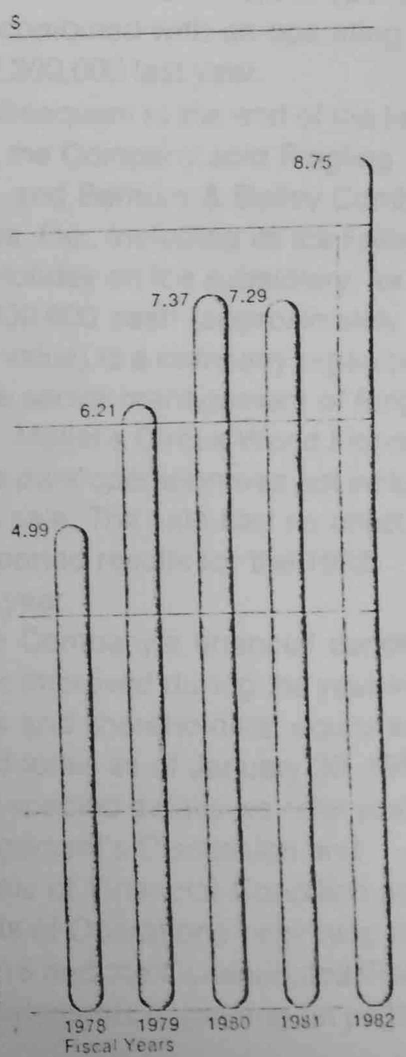


Net Income*



*Represents income before extraordinary items for fiscal 1979 and fiscal 1978

Shareholders' Equity per Common Share



highest in the Company's history. Net sales rose 24% to $1,134,252,000. Net income was $39,102,000 compared with $7,898,000 in the prior fiscal year.

Operating results of the Toy and Hobby Products segment and the Electronics segment were particularly noteworthy. Operating profits of the Publishing and Printing segment declined in fiscal 1982 and the Entertainment segment operated at a small loss.

During fiscal 1982, Mattel maintained leadership positions in each of its principal businesses and became a major factor in the consumer video game electronics field.

Profit from operations of the Toy and Hobby segment increased approximately 59% as net sales rose 13%, principally attributable to the fashion doll, large doll, preschool and die-cast miniature car categories. Also contributing to the sales increase were the new plush doll and cosmetic categories.

Mattel Electronics is now reported for the first time as a separate segment reflecting its dramatic growth. Net sales of this segment more than doubled to $287,600,000. In fiscal 1982, Mattel Electronics generated operating profits of approximately $73,100,000 compared with $7,300,000 in the previous year. Favorable consumer acceptance of Intellivision, the Company's home video entertainment system, resulted in worldwide shipments of more than one million Intellivision Master Components during the year.

previous year, notwithstanding a modest rise in sales. Significant investments in staff and related programs to strengthen marketing, sales and product development have not yet been reflected in increased sales or profits. Although performance of the Western Publishing consumer products operation has been disappointing to date, our confidence in its potential remains undiminished.

The operating loss from entertainment operations is attributable to increased operating costs and lower attendance levels. The Entertainment segment reported slightly lower revenues and a $1,100,000 operating loss combined with an operating profit of $2,300,000 last year.

Subsequent to the end of the fiscal year, the Company sold Ringling Bros. and Barnum & Bailey Combined Shows, Inc., including its Ice Follies and Holiday on Ice subsidiary, for $22,800,000 cash (approximately net book value) to a company organized by the senior management of Ringling Bros. Mattel's Circus World Florida theme park operation was not included in the sale. The sale had no effect on reported results for the 1982 fiscal year.

The Company's financial condition further improved during the year with assets and shareholders' equity at record totals as of January 30, 1982.

For specific details we refer you to Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 16 and the Consolidated Financial Statements beginning on page 24.

We remain committed to sustaining our leadership positions in our principal businesses, and to assuring the continued dedication of ample human and financial resources to new product development targeted toward infants and preschool children, preteens and teenagers, adults and entire families.

Ralph E. Petering has advised that he will retire from our Board of Directors effective May 1, 1982. For the past seven and one-half years, Mr. Petering has served on the Board and dedicated his considerable experience, wisdom and judgment during terms on the Executive Committee, Compensation Committee, Financial Controls and Audit Committee and Pension Committee. We regret his departure and deeply appreciate his tireless efforts on behalf of the Company.

Our achievements are the direct result of the dedicated efforts of our entire organization and the valued support of our shareholders, our customers and our suppliers.

Sincerely,

Arthur S. Spear

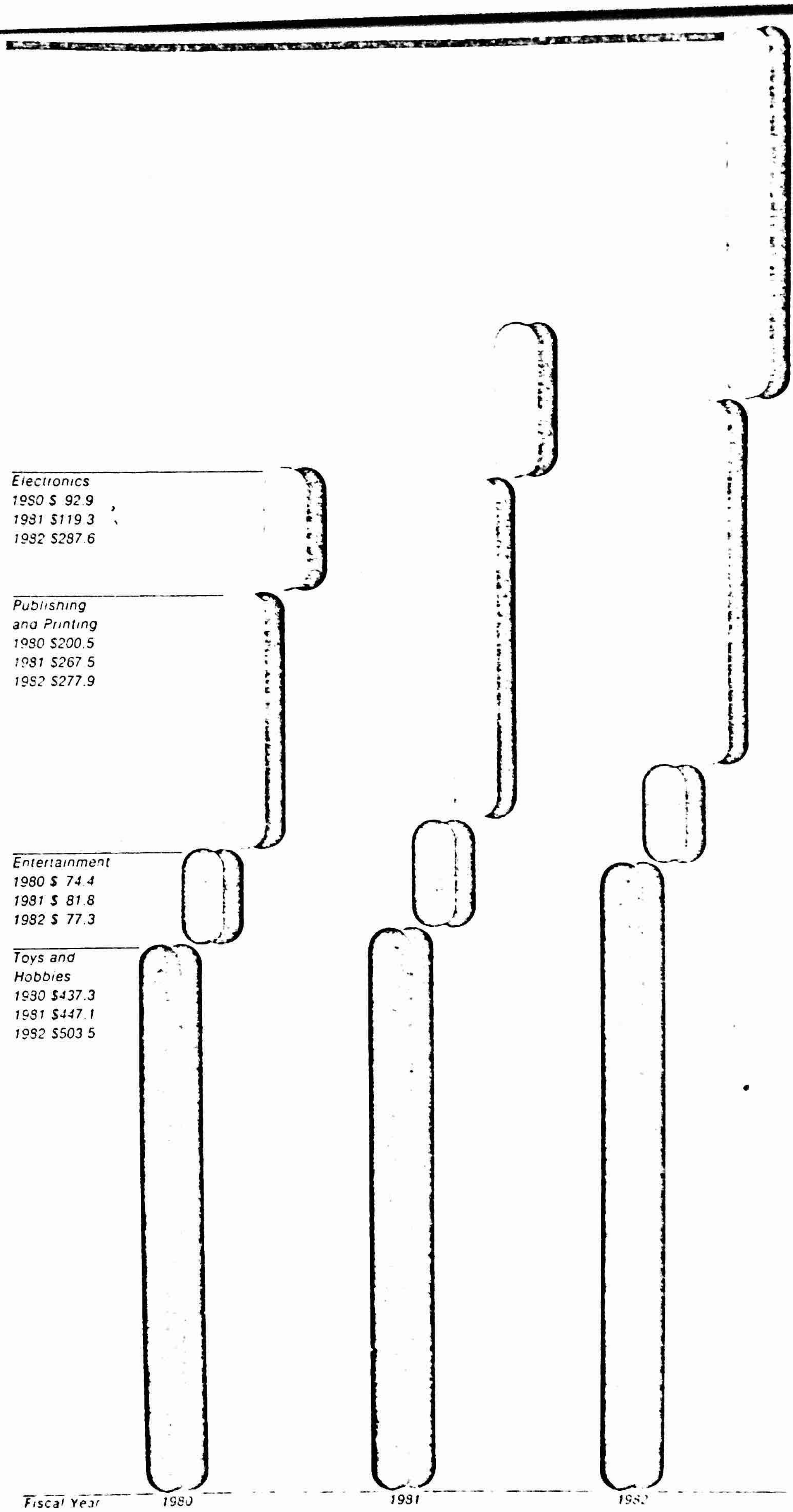
Arthur S. Spear
Chairman and Chief Executive Officer

Robert E. Anderson

Robert E. Anderson
President and Chief Operating Officer

April 7, 1982

					$437.3
Electronics	287.6	25	119.3	13	92.9
Publishing and Printing	277.9	25	267.5	29	200.5
Entertainment	77.3	7	81.8	9	74.4
Intersegment sales and transfers	(12.0)	(1)	—	0	—
Total	$1,134.3	100%	$915.7	100%	$805.1
Operating Profit (Loss)					
Toy and Hobby Products	$ 65.5	44%	$ 41.2	59%	$ 44.4
Electronics	73.1	50	7.3	10	25.8
Publishing and Printing	10.5	7	19.4	28	23.9
Entertainment	(1.1)	(1)	2.3	3	4.1
Total	148.0	100%	70.2	100%	98.2
Interest expense	(51.4)		(39.0)		(27.2)
Corporate and other	(20.7)		(14.4)		(9.9)
Income Before Income Taxes	75.9		16.8		61.1
Income taxes	36.8		8.9		30.5
Net Income	$ 39.1		$ 7.9		$ 30.6



Electronics
1980 $ 92.9
1981 $119.3
1982 $287.6
Publishing
and Printing
1980 $200.5
1981 $267.5
1982 $277.9
Entertainment
1980 $ 74.4
1981 $ 81.8
1982 $ 77.3
Toys and
Hobbies
1980 $437.3
1981 $447.1
1982 $503.5
Fiscal Year
1980
1981

[illegible] revenues and 44% of its operating profit. Revenues were $503.5 million and operating profits were $65.5 million establishing new records for this segment.

As the world's largest single toy manufacturer, the Mattel Toys division produces and distributes a diverse mix of toy and juvenile educational products through Mattel Toys U.S.A. and Mattel Toys International.

Mattel Toys is the market leader in the doll category. Barbie*, the world's best-known fashion doll, is now in her twenty-third year. More than 135 million Barbie dolls, in various styles and costumes, have been sold worldwide since introduction in 1959, with new unit sales records set in fiscal 1982. The fashion doll category includes dolls, clothing, accessories, doll houses and related products.

Mattel also utilizes the established Barbie franchise on non-doll related product introductions to gain more ready customer and consumer acceptance. During the past year, Mattel Toys U.S.A. introduced a line of Barbie Cosmetics intended for use in play by young girls who have traditionally associated with the Barbie name.

While less significant than the Barbie line, large dolls continue to be an important contributor to Mattel Toys. Last year Mattel produced more than 3 million large dolls with the strongest performance registered by Tippee Toes™, a new product which achieved sales of more than 1½ million units.

The Hot Wheels line of miniature die-cast cars, now in its fifteenth year, also has become a toy industry staple. Last year, the Hot Wheels line realized the highest sales levels in its history.

[illegible] for preschoolers. Additionally, the Monchhichi** dolls introduced in the United States last year were very well received and this category is developing a solid base for future growth. Toys with only an average performance were miniature dolls and radio-controlled vehicles.

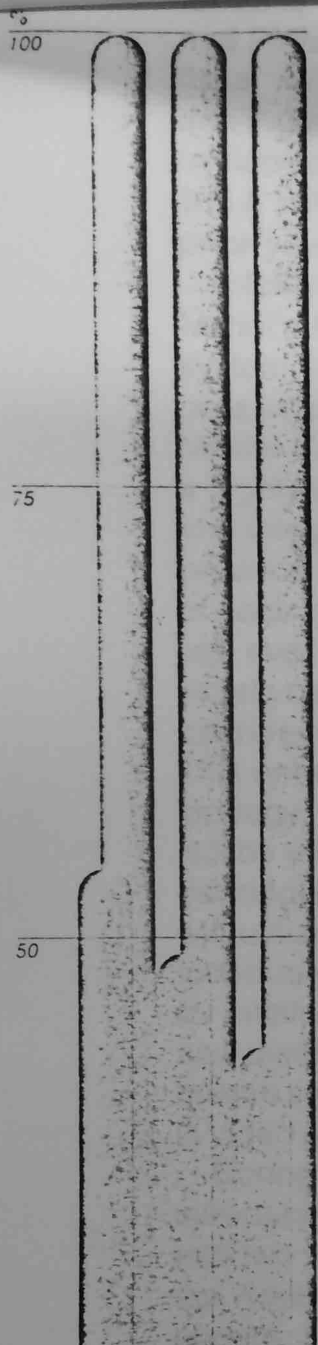
Mattel Toys continues to place increased emphasis on establishing a market for innovative products designed to help children learn while having fun. The library of learning fun modules for The Children's Discovery System™, the programmable computer introduced in the United States last year for six-to-eleven year olds, has been expanded.

Each of the operating units of Mattel Toys International in Australia, Canada, France, Germany, Italy, Latin America and the United Kingdom reported improved sales on a local currency basis. Paralleling the experience in the United States, the Barbie, Hot Wheels and See 'N Say product categories were the major contributors to the sales increase.

Monogram Models, Inc. is one of the world's largest manufacturers of plastic model kits. In fiscal 1982, Monogram increased its share of the United States market while the hobby kit industry declined in total. Monogram produces some 280 plastic kits from which hobbyists assemble model cars, trucks, planes and other items.

Beginning in fiscal 1983, Monogram assumed responsibility for producing and distributing the Skilcraft* line of children's tools, chemistry sets and other science kits, formerly produced by Western Publishing.

**Monchhichi is a U.S. registered trademark owned by and used under license from Se[illegible] Co., Ltd.


%
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75
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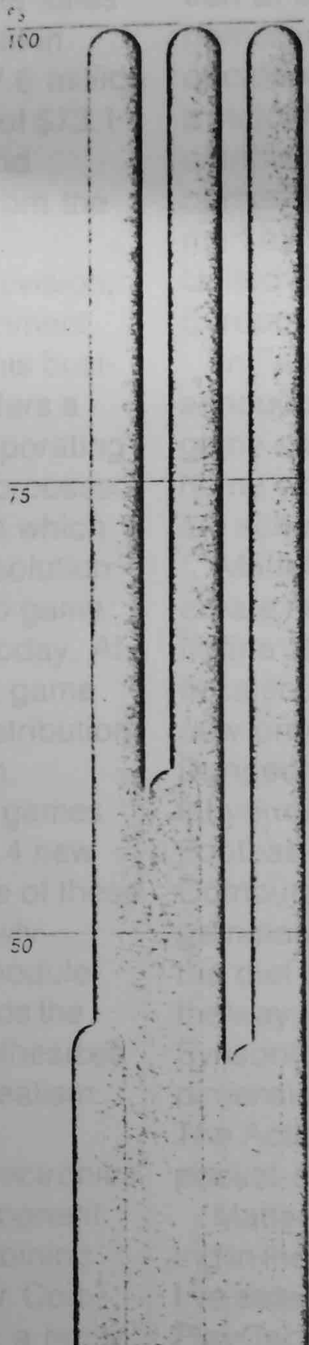
1980
1981
1982
Fiscal Years


%
100
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1980
1981
1982
Fiscal Years

for 20% of the Company's net sales and 50% of its operating profit in fiscal 1982. Net sales of $287.6 million and income from operations of $73.1 million rose $168.3 million and $65.8 million, respectively, from the prior year.

Intellivision® Intelligent Television, Mattel's home video entertainment system, is the focal point of this business segment. Intellivision offers a Master Component unit incorporating a highly-sophisticated microprocessor and integrated circuit chip set which produce the highest level resolution of color graphics of any video game unit available in the market today. At fiscal year-end, 26 distinctive game cartridges were in general distribution. This network of sports, action, strategy, learning and space games will be expanded by at least 14 new cartridges in fiscal 1983; three of these will utilize Intellivoice™, a newly-introduced voice synthesis module for Intellivision. Intellivoice adds the new dimension of life-like, synthesized human speech for enhanced realism in video game play.

During fiscal 1982 Mattel Electronics introduced its Keyboard Component into two test markets. By combining the Keyboard with the Master Component, Intellivision becomes a home entertainment computer. Plans call for expanded distribution of the Keyboard Component into additional test markets during the current year.

Consumer response to Intellivision has been strong since its introduction in fiscal 1981, and demand has remained ahead of production despite major expansion of manufacturing facilities during fiscal 1982. The penetration of 8%-9% of all television homes in the United States by the end of calendar 1981. Mattel Electronics is a major factor in this growth industry, combining active research and development programs with aggressive marketing and sales activities in the United States, Canada, Western Europe, Australia and South America.

In February 1982, Mattel Electronics announced the introduction of a line of game cartridges for use on the Atari home video game system. Shipments are scheduled to begin in mid-1982.

Mattel Electronics also continues to create new business opportunities with its line of portable electronic products. In calendar 1981, Mattel Electronics' new product line included the Dungeons & Dragons™** computer labyrinth game, World Championship™ Football and Baseball games, Computer Chess and Computer Backgammon. New in 1982 is Diet Trac™, the diet computer system which points the way to personal health enrichment; Synsonics™ Drums, which opens new dimensions in electronic music; and The Action Arcade Series™ of low-cost pocket-sized electronic games.

Mattel Electronics is also participating in the cable television business in five selected test markets through the PlayCable joint venture with General Instrument Corporation, a leading supplier to the cable industry. This system offers owners of Intellivision Master Components access to Intellivision game play for a monthly fee.

**Dungeons & Dragons is a trademark owned by and used under license from TSR Hobbies, Inc.

pany's revenues and 7% of operating profit in fiscal 1982. Revenues of this business segment grew 4% to $277.9 million, and operating profit declined 46%, to $10.5 million, from the previous year.

Western's Consumer Products group offers approximately 2,000 products, principally children's books, games and puzzles, under such established and well-known names as Golden Book and Whitman. The Company also has long-term licensing agreements for the use of popular animated characters owned by others, including Walt Disney Productions, Children's Television Workshop/ Sesame Street, Warner Bros., Inc. and Walter Lantz Productions. Western is the nation's largest creator, producer and printer of juvenile books, including activity and coloring books, and additionally prints cookbooks and craft guides for adults. Distribution is through mass-merchandising retailers, book stores, grocery stores and other retail outlets.

Consumer markets are also served through a direct marketing effort for various continuity programs such as Betty Crocker's recipe cards, The Greenhouse gardening information programs and the Sesame Street Book Club.

The Commercial Products division is one of the largest and most diversified commercial printers in the United States, with a customer base of many of the nation's largest corporations. Western Publishing's capabilities include computerized typesetting, data processing and multi-color sheet-fed cards, puzzles, maps, educational kits, games, magazines and catalogs.

Children's books and other items for the international market are produced in Australia, New Zealand, Canada and France. Western also licenses certain of its products to others for manufacture. These licensed products are sold in more than ninety foreign countries.

The creative and design capabilities of Western Publishing are regarded as a major strength. Its creative staff of more than 120 people is among the largest in the industry.

Two years ago, Western Publishing resolved to restructure and expand the Company's marketing efforts. Specifically, the objective was to improve distribution of the Company's well-known branded products, initiate extensive market research, broaden marketing efforts to include direct sales, and restructure commercial marketing activities. Substantial investments were committed to human resources, sales training, sales and marketing programs and distribution systems to effect these improvements.

Ringling Bros. and Barnum & Bailey Combined Shows, Inc., Ice Follies and Holiday on Ice, Inc. and Circus World Florida theme park. These operations accounted for 7% of Mattel's revenues in fiscal 1982. Revenues totaled $77.3 million and operations produced a loss of $1.1 million in 1982 versus an operating profit of $2.3 million in the previous year.

Subsequent to the end of the fiscal year, Mattel, Inc. sold Ringling Bros. and Barnum & Bailey Combined Shows, Inc. and Ice Follies and Holiday on Ice, Inc.

Mattel, Inc. retains ownership of Circus World Florida theme park, the 110-acre entertainment center near Orlando, Florida.

Circus World, A Whole Day of Family Fun, offers an exciting "World of Circuses." Among the more than 100 rides, shows and attractions is the Circus Spectacular show recreating the nostalgia and thrills of the circus coming to town. There's also Be-A-Star Circus where guests are invited to "join the circus"—fly the trapeze, walk the highwire or learn to juggle; the Aqua Circus featuring a variety of acrobatic and comedy diving; and many thrill rides, exhibits, exotic animals and acts to delight young and old alike.

Tourism in Central Florida declined in fiscal 1982, adversely affecting attendance at Circus World. The theme park was not profitable in fiscal 1982.

Five-Year Financial Summary

	1982	1981	1980*	1979	1978
Operating Results					
Net sales	**$1,134,252**	$915,690	$805,064	$493,563	$436,645
% increase	**24%**	14%	63%	13%	13%
Gross profit	**451,567**	327,156	287,803	192,345	170,007
% of net sales	**40%**	36%	36%	39%	39%
Operating profit	**147,983**	70,198	98,182	69,236	60,728
% increase (decrease)	**111%**	(29%)	42%	14%	15%
% of net sales	**13%**	8%	12%	14%	14%
Interest expense	**51,394**	38,999	27,182	12,775	11,820
Income before income taxes	**75,902**	16,798	61,053	47,661	41,237
Income taxes	**36,800**	8,900	30,500	23,700	19,400
Income before extraordinary items	**39,102**	7,898	30,553	23,961	21,837
% increase (decrease)	**395%**	(74%)	28%	10%	33%
% of net sales	**3%**	1%	4%	5%	5%
Per share — primary	**1.68**	.12	1.38	1.23	1.19
Per share — fully diluted	**1.55**	.12	1.34	1.23	1.19
Extraordinary items	—	—	—	6,100	7,000
Per share — primary	—	—	—	.31	.37
Per share — fully diluted	—	—	—	.31	.37
Net income	**39,102**	7,898	30,553	30,061	28,837
Net income applicable to common shares	**33,060**	1,856	26,721	30,061	28,837
Per share — primary	**1.68**	.12	1.38	1.54	1.56
Per share — fully diluted	**1.55**	.12	1.34	1.54	1.56
Financial Position					
Working capital	**235,037**	215,502	231,839	101,228	73,717
Current ratio	**2.0 to 1**	2.3 to 1	2.5 to 1	2.0 to 1	1.8 to 1
Property, plant and equipment, net	**123,758**	117,879	117,783	66,414	59,984
Total assets	**647,434**	550,493	547,718	279,404	236,299
Long-term liabilities	**159,900**	168,147	179,957	55,829	48,687
Shareholders' equity	**235,830**	207,299	207,674	123,571	93,438
Other Financial Information					
Cash provided from operations	**31,242**	12,863	22,706	13,099	30,064
Depreciation and amortization	**15,960**	13,955	12,305	6,695	6,632
Additions to property, plant and equipment	**22,555**	17,547	15,984	13,218	10,326
Cash dividends per common share	**.30**	.30	.30	.225	—
Average common and common equivalent shares outstanding					
Primary	**19,929**	19,986	19,836	19,910	18,744
Fully diluted	**25,536**	19,986	23,245	19,910	18,744
Number of shareholders — common	**21,900**	20,800	22,100	21,800	23,000
Number of shareholders — preferred	**2,600**	2,300	2,000	—	—

*Includes results of operations of Western Pub[illegible] Company, Inc. since June 1979, the date of acquisition.

Liquidity and Capital Resources

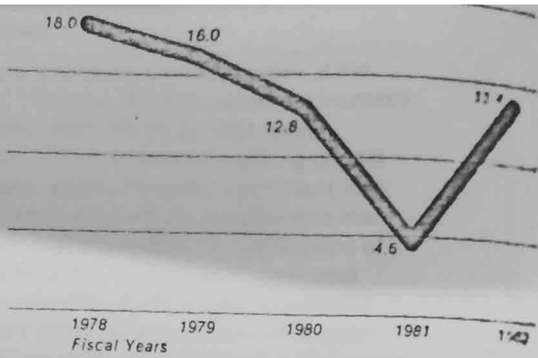
Return on Average Capital Employed

Return on average capital employed is a principal criterion by which management measures performance of its business operations. The Company's objective is to produce a return in excess of 15% on the average capital employed by its operations.

As illustrated in the accompanying graph, the Company's operations produced a return of 13% in fiscal 1982 due to the strong performance of the Toy & Hobby Products and Electronics segments. While the 13% return generated in fiscal 1982 is below the Company's objective, it was a significant improvement over the 5% return generated in fiscal 1981. The low return in fiscal 1981 was caused principally by the Company's unsatisfactory earnings performance that year and the increase in capitalization resulting from the acquisition of Western Publishing Company, Inc. (Western) and the Ice Shows in fiscal 1980. Fiscal 1980's return was also slightly below the Company's objective due to the increase in average capital employed resulting from the Western and Ice Shows acquisitions. The Company exceeded its objective of a 15% return on average capital employed in fiscal 1979 and fiscal 1978. An improvement in the return on capital employed by the Publishing and Printing and Entertainment segments is required for the Company to achieve its overall objective of a 15% return on average capital employed.

Capital Employed

Management's principal financial objective is to maintain a strong and prudently balanced capital structure while at the same time providing sufficient capital resources to support the growth of its business segments. Management would prefer to maintain long-term liabilities as a proportion of total capital employed below 35%. As illustrated in the following table, the Company's long-term liabilities as a proportion of total capital employed was reduced to 40% at the end of fiscal 1982, a four percentage point reduction from fiscal 1981 and a six percentage point reduction from the fiscal 1980 peak of 46%. The

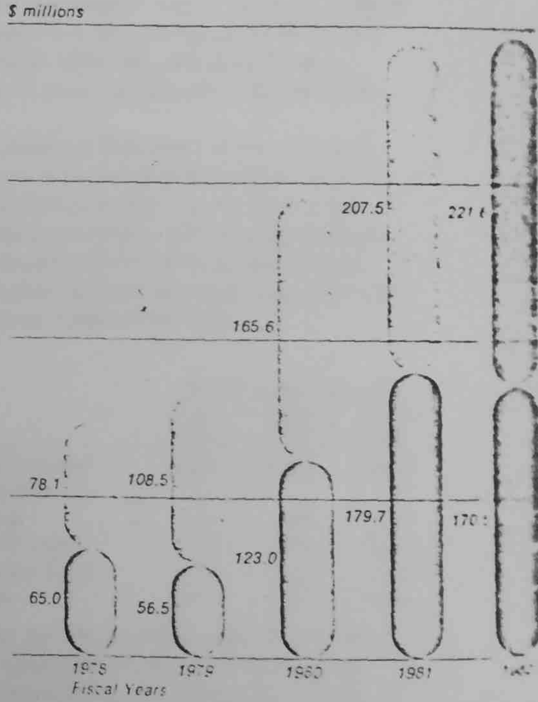


The return is calculated by dividing the total of income before extraordinary items and estimated after-tax interest expense on long-term liabilities by monthly average capital employed. Capital employed is the total of long-term liabilities (including long-term debt), deferred income taxes, minority interest and shareholders' equity.

Composition of Average Total Capital Employed

Shareholders' equity

Long-term liabilities and other



fiscal 1980 peak occurred as the result of the acquisition of Western and the Ice Shows. Prior to fiscal 1980, the Company's long-term liabilities as a proportion of total capital employed was below 35%.

(In millions)	Fiscal 1982	Fiscal 1981	Fiscal 1980	Fiscal 1979	Fiscal 1978
Long-Term Liabilities	$159.9	$168.1	$180.0	$ 55.8	$ 48.7
Total Capital Employed	$404.1	$380.1	$394.3	$183.0	$147.0
Long-Term Liabilities as a % of Capital Employed					
Actual	40%	44%	46%	31%	33%
Objective	35%	35%	35%	35%	35%

The Company's financing requirements are principally for additions to property, plant and equipment, repayment of long-term debt and working capital increases to support growth. The Company has financed these requirements from internal cash flow for the past five years.

In fiscal 1980, the Company financed the acquisition of Western and the Ice Shows with long-term borrowing from its banks and the issuance of Preferred Stock. In fiscal 1982, the Company borrowed approximately $2.0 million from the Malaysian Industrial Development Fund to finance the expansion of its die-cast manufacturing operations in that country. Also in fiscal 1982, the Company amended its bank term loan agreement to provide for repayment in twenty-four consecutive quarterly installments commencing April 30, 1983 and to reduce interest rates to the bank prime rate plus ¾% during the first thirty-three months with a gradual increase in interest rates thereafter. The Company may refinance all or a portion of this debt when market conditions are favorable to its so doing.

Over the past five years, shareholders' equity has increased by $173.0 million. The increase is principally comprised of the Company's earnings during the five-year period amounting to $136.5 million, less dividends paid to common and preferred stockholders totaling $32.9 million. Also included in the $173.0 million increase is $60.4 million related to the issuance of Convertible Preferred Stock in fiscal 1980 and $9.0 million from the exercise of stock options and the issuance and exercise of common stock warrants.

Shareholders' equity per common and common equivalent share increased to $8.75 in fiscal 1982 from $3.72 in fiscal 1977, representing a five-year compound growth rate of 18.7%.

In June 1982, the Company has the right to redeem 605,000 shares of the Series A Convertible Preferred Stock at a price of $27.50 per share.

Working Capital

The Company's working capital position at the end of fiscal 1982 was $235.0 million, an increase of $19.5 million from the fiscal 1981 level.

The Company's investment in working capital is substantially greater than the investment in fixed assets and, accordingly, considerable management attention is directed to maintenance of these amounts at an optimum level. The fiscal year-end levels of receivables and inventories are principally determined by the fourth quarter activity and expectations for the first quarter of the next year.

The increase in net accounts receivable in fiscal 1982 of $55.3 million, as compared with the fiscal 1981 year-end amount, principally relates to the 51% increase in sales in the fourth quarter versus the previous year level, primarily generated by the Electronics segment. The fiscal 1982 increase in inventories was influenced by a change in the inventory mix arising from a significantly higher level of Intellivision work-in-process in addition to higher inventories at Western. The increase in income taxes payable in fiscal 1982 is related to higher earnings in fiscal 1982. The decrease in working capital in fiscal 1981 from fiscal 1980 was principally due to an increase in accounts payable and accrued liabilities.

The performance indicators in the following table measure the control of the major components of working capital. During fiscal 1982, the Company substantially reduced the average number of days receivables were outstanding before collection and the average number of days inventories were held before sale.

	Key Performance Indicators		
	Fiscal 1982	Fiscal 1981	Fiscal 1980
Receivables Turnover	4.0×	3.6×	4.0×
Days Receivables Outstanding	91	100	91
Inventories Turnover	3.8×	3.2×	3.9×
Days Inventories Held	96	111	91
Current Ratio	2.0:1	2.3:1	2.5:1

The turnover figures are calculated by dividing annual net sales (for receivables) and cost of sales (for inventories) by the monthly average receivables and inventories, respectively. Days receivables outstanding is calculated using monthly average receivables and annual net sales. Days inventories held is calculated using monthly average inventories and annual cost of sales. The current ratio is calculated by dividing current assets by current liabilities.

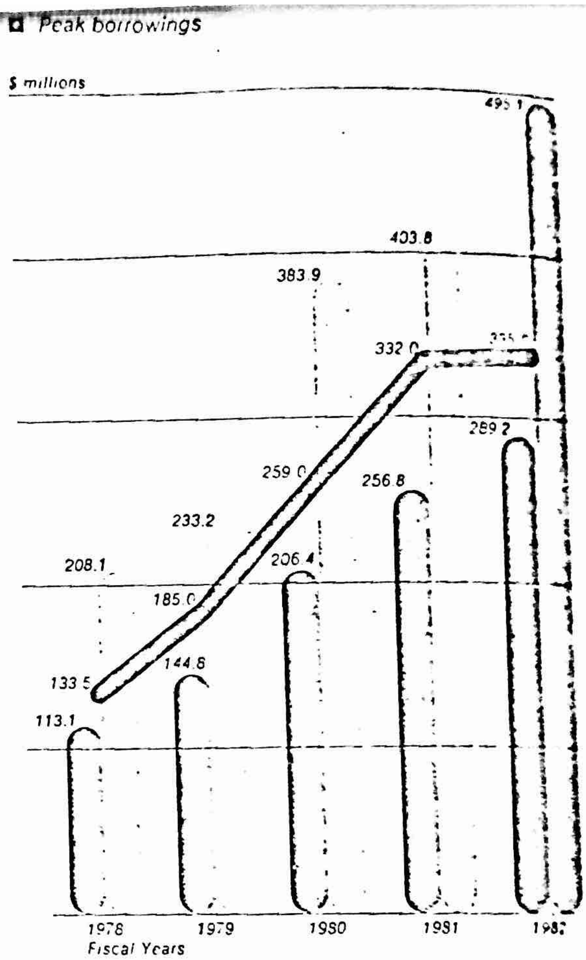
and Results of Operations *(continued)*

accounts receivable. As illustrated in the accompanying graph, domestic and foreign seasonal lines of credit increased to $335.0 million in fiscal 1982 from $133.5 million in fiscal 1978. Seasonal borrowings under these lines generally peak in October of each year. Seasonal borrowings increased to $289.2 million in fiscal 1982 from $113.1 million in fiscal 1978. The Company has repaid all domestic borrowings prior to the end of its fiscal year for the last nine years.

The level of accounts receivable and, therefore, the level of domestic seasonal borrowings are dictated by the Company's sales policies and the seasonal characteristics of the Company's principal business segments. The Toy and Hobby Products segment's principal domestic subsidiaries have sales policies which provide for a substantial portion of their sales to be collected in the months of November, December and January. Certain sales to major retailers, department stores and wholesalers are on 40, 60 and 100 day terms, respectively. Sales to Electronics' customers are generally on shorter terms than Toy and Hobby Products sales but extend up to 90 days. The Company will also use incentives, when appropriate, in the form of discounts to encourage early payment of dated receivables.

Management is presently negotiating the annual domestic lines of credit for fiscal 1983 and expects to increase the credit lines from the $250 million obtained for fiscal 1982. Foreign seasonal borrowings are negotiated for support of the working capital requirements of each of the Company's foreign marketing subsidiaries and the major manufacturing subsidiaries located in Asia. The foreign marketing subsidiaries are influenced by the same seasonal patterns that prevail in the United States toy industry, although receivables dating programs are not as prevalent.

Management continues to explore and consider alternate means and sources to finance its seasonal requirements to reduce dependency on bank credit lines and decrease interest costs.



Peak borrowings are based on daily domestic borrowings and month-end foreign borrowings.

Cash Provided from Operations

Cash provided from operations over the past five years has been sufficient to support operations without the need for significant long-term financing. Long-term financing during the five-year period was used primarily to fund the acquisitions of Western and the Ice Shows in fiscal 1980.

Working capital provided from operations amounted to $202.4 million over the past five-year

period. Increases in working capital affecting operations consumed $92.4 million of these funds leaving $110.0 million for cash provided from operations. This cash provided from operations was used for additions to property, plant and equipment ($79.6 million) and dividends ($32.9 million).

The Consolidated Statements of Changes in Financial Position present the Company's major components of cash provided from operations and uses of funds for the last three fiscal years.

Additions to Property, Plant and Equipment

Additions to property, plant and equipment for fiscal 1982 amounted to $22.6 million as compared with $17.5 million in fiscal 1981 and $16.0 million in fiscal 1980. Capital expenditures in fiscal 1982 were higher than in prior years due primarily to realignment of manufacturing facilities in Hong Kong, start-up of a new die-cast facility in Malaysia and renovation and expansion of the Company's Hawthorne, California, office facilities. Major capital expenditures in fiscal 1981 included expansion of die-cast manufacturing capacity in Hong Kong, expanding and refurbishing of Circus World and installation of new communications systems in Hawthorne, California and Racine, Wisconsin. The major capital expenditure in fiscal 1980 was a new manufacturing and warehouse facility in Des Plaines, Illinois for the Monogram Models, Inc. subsidiary.

Results of Operations

Consolidated Results

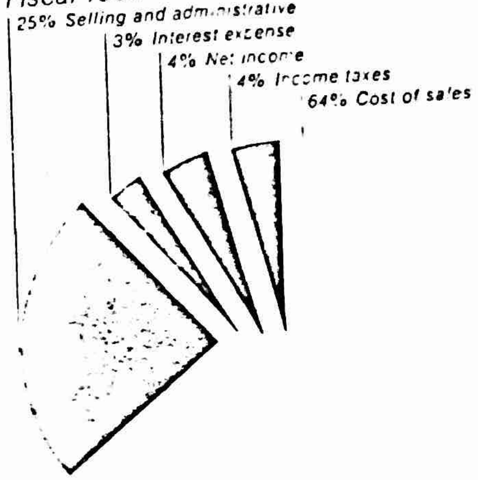
- *Net Sales* — Net sales in fiscal 1982 were a record $1.1 billion, exceeding the previous year's level of $915.7 million by 24%. Contributing to this strong performance were the Electronics and Toy and Hobby Products segments. Both segments enjoyed increased demand for new and existing products. In fiscal 1981, the sales increase was almost 14% resulting primarily from inclusion of Western's operations for the full year.

The accompanying charts depict the Company's allocation of net sales for the last three years.

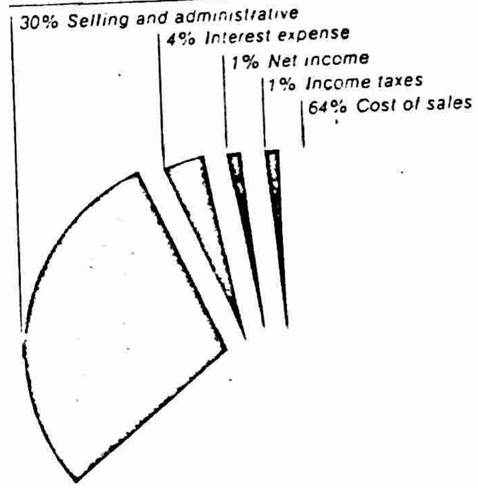
- *Cost of Sales* — Cost of sales was reduced to 60% of net sales in fiscal 1982. This 4% reduction from 64% in fiscal 1981 was achieved through improvements in several areas. Improvements resulted primarily from increased sales of the Company's staple, higher margin products such as Barbie and Hot Wheels and favorable

Allocation of Net Sales

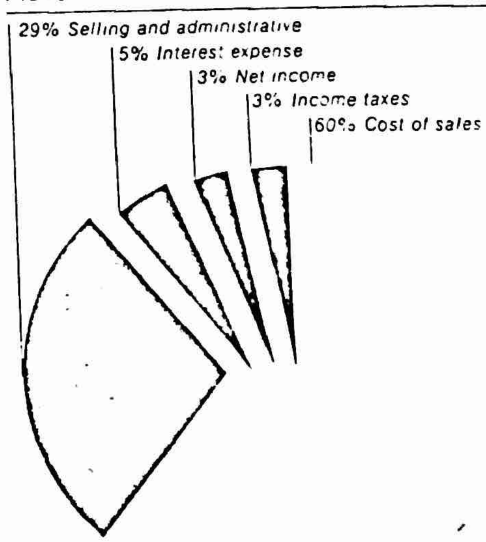
Fiscal 1980



Fiscal 1981



Fiscal 1982



as increased demand reduces the potential negative impact of obsolete and excess inventory (such as occurred in fiscal 1981) and the Company benefits from cost savings arising from higher production levels. Additionally, plastics and paper price increases were smaller in fiscal 1982 than in prior years. Fiscal 1981's cost of sales percentage was higher than historical levels primarily due to the adverse impact of the decline in demand for Electronics' high margin hand-held games. Lower attendance levels at the Entertainment segment attractions (primarily Circus World) negatively impacted the cost of sales rate in fiscal 1982 as compared to fiscal 1981.

■ *Selling and Administrative Expenses* — Selling and administrative expenses is comprised of advertising, selling, research and development and general and administrative expenses. A summary of these expenses for fiscal years 1982, 1981, and 1980 is as follows:

	Fiscal 1982		Fiscal 1981		Fiscal 1980	
(In millions)	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Advertising & Promotion	$127.3	11%	$ 96.8	11%	$ 69.4	9%
Selling	64.5	6	54.5	6	42.4	5
Research & Development	24.6	2	22.7	2	17.8	2
General & Administrative	107.1	10	96.1	11	70.8	9
	$323.5	29%	$270.1	30%	$200.4	25%

The Company relies heavily on advertising to support its products in the marketplace, to introduce new products to the consumer and to assure the successful sell-through of product at the retail level. In fiscal 1982, the Company was able to maintain advertising and promotion expense at 11% of net sales despite increasing costs (particularly for media advertising) and the need to establish Intellivision in the marketplace. The $27.4 million increase in advertising and promotion expense in fiscal 1981 versus fiscal 1980 resulted primarily from the acquisition of Western and the introduction of Intellivision.

The increase in general and administrative expense of $11.0 million in fiscal 1982 versus fiscal 1981 was primarily attributable to the $2.9 million cost of settlement of litigation and an increase in the provision for incentive compensation of $5.8 million. The increase in general and expense resulting from the bankruptcies of two of the buyers of the assets of Metaframe Corporation, reduced collections from Western's Direct Marketing customers and bankruptcy of one of the Company's major toy wholesalers. Increased organizational support costs for the Electronics and Publishing and Printing segments and inflationary cost increases also caused other general and administrative costs to increase.

Selling expenses remained at 6% of net sales in fiscal 1982, the same rate as in fiscal 1981, and represent the continuing emphasis on increased marketing support at Western. The increase in expense in fiscal 1981 versus fiscal 1980 was also primarily due to the acquisition of Western.

Research and development continues to be an important aspect of the business. Spending in this area remained at 2% of net sales and is intended to assure continuation of a steady flow of new products and techniques.

■ *Interest Expense* — Interest expense increased 32% or $12.4 million in fiscal 1982 over fiscal 1981. In fiscal 1981 the increase was 43% over fiscal 1980. The increased level of interest expense in fiscal 1982 is associated with a 14% increase in average domestic seasonal borrowings along with higher interest rates. Weighted average domestic seasonal borrowing rates increased to 17.8% in fiscal 1982 from 13.5% in fiscal 1981. The increase in fiscal 1981 versus fiscal 1980 was primarily related to the aforementioned reasons and a full year of interest on the borrowings to acquire Western and the Ice Shows. Interest expense on the acquisition borrowings also fluctuates with the prime rate.

■ *Income Taxes* — The Company's effective tax rate declined to 48.5% in fiscal 1982, a rate more consistent with fiscal 1980. In fiscal 1981 the effective tax rate increased to 53.0% principally due to a significantly higher overall foreign tax rate. Income tax costs consumed 3% of each sales dollar in fiscal 1982.

■ *Net Income* — The Company achieved a record level of net income in fiscal 1982 of $39.1 million. This compares with $7.9 million and $30.6 million in fiscal 1981 and fiscal 1980, respectively. Primary earnings per share were $1.68 versus $.12 in fiscal 1981 and $1.38 in fiscal 1980.

Segment Contribution

Contributions to consolidated net sales from the Company's business segments and operating profit for the last three years are shown below. For a more complete description of business segment operations, refer to page 34.

	Fiscal 1982		Fiscal 1981		Fiscal 1980	
	Net Sales	Operating Profit	Net Sales	Operating Profit	Net Sales	Operating Profit
Toy and Hobby Products	44%	44%	49%	59%	54%	45%
Electronics	25	50	13	10	12	26
Publishing and Printing	25	7	29	28	25	25
Entertainment	7	(1)	9	3	9	4
Intersegment sales and transfers	(1)	—	—	—	—	—
	100%	100%	100%	100%	100%	100%

■ *Toy and Hobby Products* — Net sales for this segment reached $503.5 million in fiscal 1982 representing a 12.6% increase from the previous year. All of the sales improvement was attributable to the strong performance of the Toy Products division due in large measure to the substantial demand for products in the Fashion and Large Doll categories and the Hot Wheels category. The Hobby Products division experienced a slight decline in net sales from the previous year as a result of unfavorable market conditions in the hobby industry. The fiscal 1981 net sales growth of the Toy and Hobby Products segment was 2.2%.

Operating profit in fiscal 1982 was $65.5 million or 13.0% of net sales as compared with $41.2 million or 9.2% of net sales in fiscal 1981. The higher level of profitability in fiscal 1982 resulted from an improvement in gross margins arising from increased demand for higher margin products, lower inventory obsolescence and a lower provision for bad debts. The overall performance of this segment in fiscal 1982 was somewhat reduced by unfavorable economic conditions in Europe and the negative effect of fluctuations of the foreign currencies in the countries where the Company operates. Operating profit in fiscal 1980 was $44.4 million or 10.2% of net sales

■ *Electronics* — Net sales in fiscal 1982 for this segment were $287.6 million versus $119.3 million in fiscal 1981 and $92.9 million in fiscal 1980. Excellent demand for the Intellivision product line contributed to a sales increase of 141.1% in fiscal 1982. Sales of hand-held games were significantly lower in fiscal 1982 than in fiscal 1981 due to the carryover of hand-held game inventories in the marketplace from the prior year. The demand for Intellivision in fiscal 1982 exceeded the Company's internal production capacity as well as external sourcing capacity. Full production was impaired at times by unavailability of critical electronic components, principally ROM and RAM chips. Intellivision's net sales growth was more than 400 percent for the year and over one million master component units were sold in fiscal 1982 compared with approximately 200,000 in fiscal 1981. Fiscal 1980 net sales were totally comprised of hand-held games.

Operating profit was $73.1 million (25.4% of net sales) in fiscal 1982 versus $7.3 million (6.1% of net sales) in the previous year. The operating profit increase in fiscal 1982 was due to the sales volume of master components and higher margin cartridges and the favorable impact of an increased proportion of internally manufactured Intellivision master components and cartridges. Hand-held games sales were not significant in fiscal 1982 and did not contribute positively to operating profits. In fiscal 1981, the Electronics segment operating profit was adversely impacted by the rapid market deterioration for hand-held games and the consequent provision for product obsolescence as well as the higher costs associated with the national introduction of Intellivision. Operating profit in fiscal 1980, which was totally comprised of hand-held games, amounted to $25.8 million.

■ *Publishing and Printing* — Net sales of Western were $277.9 million in fiscal 1982 which exceeded the prior year by 3.9%. The Commercial Printing division showed a significant improvement over the prior year's sales level due to management's emphasis on special market opportunities. Sales reported by the Consumer Products, Direct Marketing and International operations of Western were virtually flat between years. Sales in fiscal 1981 were 33% above the prior year principally resulting from inclusion of Western's operations for the full year.

Operating profit declined to $10.5 million principally due to operations of the Consumer Products and Direct Marketing divisions. The International operations, particularly in France, were adversely impacted by currency exchange losses. Operating results for Consumer Products were considerably below the prior year's level due to higher cost of sales and increased selling and administrative expenses. Increased selling and administrative expenditures were to promote new products, increase market penetration and strengthen the marketing organization. Operating results for Direct Marketing operations were

in bad debt expense in the Direct Marketing operations. Western has traditionally earned a higher portion of its annual profits in the second half of the year. Western was acquired in June 1979.

■ *Entertainment* — Revenues of $77.3 million in fiscal 1982 were 5.5% below the fiscal 1981 level of $81.8 million. Each one of the operations which comprise this segment suffered a decline in attendance. Revenues were also negatively impacted by the absence of the Monte Carlo circus foreign tour which was discontinued on completion of the foreign tour in fiscal 1981. Revenues in fiscal 1981 were $7.4 million higher than in the preceding year primarily due to inclusion of a full year of operation of the Ice Shows.

The operating loss in fiscal 1982 was $1.1 million versus a $2.3 million operating profit in fiscal 1981 as a result of the unfavorable factors mentioned above. Operating profit in fiscal 1980 was $4.1 million. The lower operating profit in fiscal 1981 versus fiscal 1980 was principally attributable to the Ice Show operations.

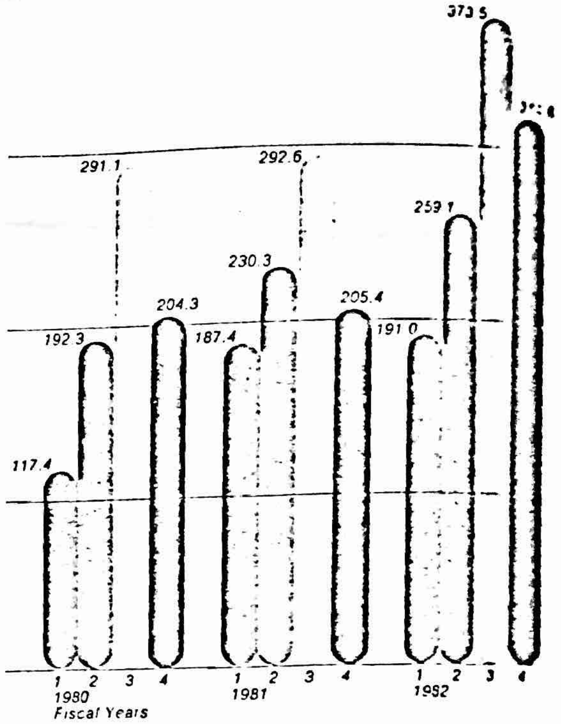
Subsequent to January 30, 1982, the Company sold the traveling circuses and ice shows. The Florida theme park was not included in the sale.

Quarterly Results

Net sales of the Toy and Hobby Products segment are heavily influenced by the dynamics of the purchasing patterns of consumers who traditionally make the majority of their purchases of toys and hobby products in the eight weeks preceding Christmas. Accordingly, the majority of product shipments to retailers and distributors occur during the period from July to November. Increased early shipments of toys and the unavailability of Intellivision master components and related cartridges early in the year significantly altered the seasonality of the Company's operating results in fiscal 1982. Continued emphasis on early shipping of toys and year-round availability of Electronics' product will partially determine the seasonality of the Company's business in the future. Western Publishing sales are somewhat heavier in the second half of the year than in the first half. Peak attendance at Circus World occurs in July and August.

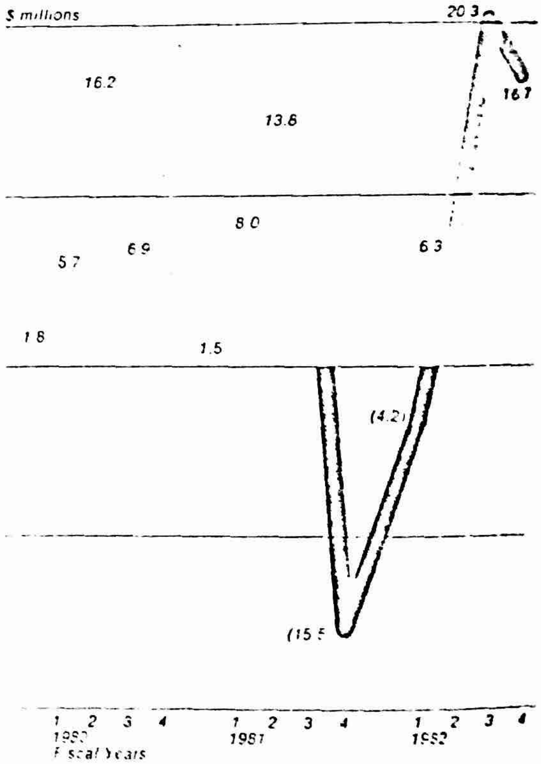
Patterns of quarterly net sales and net income of the Company for the last three years are depicted in the accompanying graphs.

Results of operations for the fourth quarter of fiscal 1982 were considerably better than the fourth quarter of fiscal 1981. The explanations for



Quarterly Results

Net Income (Loss)



the improved operating results for the quarter generally parallel the explanations for the full year.

Net sales of $310.6 million for the fourth quarter represented an increase of $105.2 million over the comparable period a year ago. Net sales for each of the Company's four business segments were as follows:

(In millions)	Fourth Quarter Fiscal 1982	Fourth Quarter Fiscal 1981
Toy and Hobby Products	$102.5	$ 98 1
Electronics	132.5	23.4
Publishing and Printing	66.1	66 5
Entertainment	18.4	17.4
Intersegment sales and transfers	(8.9)	—
	$310.6	$205.4

The substantial increase in net sales resulted principally from increased shipments of Electronics' Intellivision master components and related cartridges.

Gross profit margins expressed as a percentage of net sales improved to 42% in fiscal 1982 from 26% a year ago. The increase in gross profit margins resulted from increased sales and margins of Intellivision and related cartridges and increased sales of the Company's staple, higher margin toy products. Provisions for obsolete and excess inventory amounted to approximately $.7 million in the fourth quarter of fiscal 1982 as compared to $9.7 million in the fourth quarter of last year.

Selling and administrative expenses increased $14.3 million or 20% in fiscal 1982, primarily due to increased advertising for Intellivision. Provisions for doubtful accounts were approximately $2.7 million in fiscal 1982 as compared to $7.9 million a year ago. The substantial provisions for doubtful accounts in the fourth quarter of fiscal 1981 resulted from the bankruptcies of one of the buyers of the assets of Metaframe Corporation and one of the Company's major toy wholesalers as well as reduced collections from Western's Direct Marketing customers.

Net income was $16.7 million in fiscal 1982 as compared to a $15.5 million loss last year. Fourth quarter primary earnings per share were $.76 in fiscal 1982 versus a loss of $1.04 a year ago.

Note 11 to the Consolidated Financial Statements provides additional quarterly information.

Inflation Accounting

An accounting pronouncement issued by the Financial Accounting Standards Board (FASB) in 1979 requires the disclosure of certain effects of inflation upon the Company's operations. This information is presented in Note 12 to the Consolidated Financial Statements

The data presented in Note 12 reflect the impact of inflation under the assumption that inventories were purchased at the time of sale of the products and property, plant and equipment were all acquired during the current year rather than at their earlier actual acquisition dates reflected in the Company's Consolidated Financial Statements. The longer the time lag between the date of purchase of the assets used in the production process and the date of sale of the finished product, the greater is the inflationary effect on cost of sales.

The Company is afforded some protection from the impact of inflation as a result of rapid utilization of inventories. The nature of the consumer products marketed by the Company requires that inventories be managed effectively to meet changing consumer demands thus also reducing the potential impact of inflation. During fiscal 1982 and 1981 the Consumer Price Index increased 8% and 12%, respectively; however, the impact on cost of sales other than depreciation on a current cost basis was only 2.0% and 2.6%, respectively. This lesser impact demonstrates the Company's success in managing inventory levels.

Property, plant and equipment which represents less than 25% of total assets has a relatively lesser inflation significance to the Company than many companies in other industries. While replacement of operating facilities at today's costs would require a substantially greater investment than was made in the past, management believes that such investment would not significantly improve the efficiency of the Company's operations. The current cost of property, plant and equipment is relevant only in the context of future growth of operating facilities. These costs, when incurred, are generally recovered in the prices of the new products made by these facilities.

Inflation also results in a reduction of the cost of repayment of fixed debt obligations and the value of cash and receivables held by the Company. As reflected in Note 12, the Company has benefited from inflation by $11.1 million in fiscal 1982 and $15.3 million in fiscal 1981 due to the inflationary effect on net fixed liabilities. The FASB does not permit inclusion of this purchasing power gain in net income.

It is important to note that the Company did not actually incur the increased costs which are required to be disclosed on a pro forma basis in Note 12. Further, the FASB does not permit the Company to reduce the tax provision for these increased costs. It is the Company's opinion that these requirements of the FASB are inconsistent and result in misleading comparisons.

		31,019
Accounts receivable, less allowance of $13,400,000 in 1982 and $19,200,000 in 1981	215,895	160,591
Inventories	196,219	151,242
Prepaid expenses	29,104	28,400
Deferred income tax benefits	22,662	14,673
Total current assets	478,357	385,925
Property, Plant and Equipment, at cost		
Land	11,521	12,087
Buildings	54,058	51,056
Machinery and equipment	105,831	92,421
Capitalized leases	14,210	15,973
Leasehold improvements	12,576	9,303
	198,196	180,840
Less: Accumulated depreciation	74,438	62,961
	123,758	117,879
Other Assets		
Cost in excess of net assets of purchased subsidiaries, net	25,151	26,509
Sundry	20,168	20,180
	45,319	46,689
	$647,434	$550,493

The accompanying notes are an integral part of these statements.

...ITIES AND SHAREHOLDERS' EQUITY (in thousands)

	1982	1981
Current Liabilities		
Notes payable to banks	$ 16,992	$ 23,967
Current portion of long-term liabilities	10,233	10,279
Accounts payable	72,772	54,380
Accrued liabilities	99,552	68,585
Income taxes payable	43,771	13,212
Total current liabilities	243,320	170,423
Long-Term Liabilities		
Long-term loans	123,268	130,981
Capitalized lease obligations	14,150	14,750
Subordinated debentures	9,825	9,898
Other long-term liabilities	12,657	12,518
Deferred Income Taxes	5,522	2,586
Minority Interest	2,862	2,038
Shareholders' Equity		
Preferred stock, $1 par value, 580,000 shares authorized; none outstanding	—	—
$25 Series A convertible preferred stock, $2.50 annual dividend, $1 par value, 2,420,000 shares authorized	2,417	2,417
Common stock, $1 par value, 50,000,000 shares authorized	16,531	16,464
Additional paid-in capital	91,422	91,066
Common stock warrants	4,453	4,455
Retained earnings	121,007	92,897
Total shareholders' equity	235,830	207,299
	$647,434	$550,493

Litigation, Contingencies and Commitments

(See accompanying notes.)

	682,685	588,534	517,261
Selling and administrative expenses	323,495	270,146	200,378
Interest expense	51,394	38,999	27,162
Currency translation (gain) loss	(930)	2,079	(873)
Other (income) expense, net	1,706	(866)	63
	1,058,350	898,892	744,011
Income Before Income Taxes	75,902	16,798	61,053
Provision for income taxes	36,800	8,900	30,500
Net Income	39,102	7,898	30,553
Preferred stock dividends	6,042	6,042	3,832
Net Income Applicable to Common Shares	$ 33,060	$ 1,856	$ 26,721
Income Per Share			
Primary	$1.68	$ .12	$1.38
Fully diluted	$1.55	$ .12	$1.34
Cash Dividends Per Common Share	$ .30	$ .30	$ .30
Average Common and Common Equivalent Shares Outstanding			
Primary	19,929	19,986	19,836
Fully diluted	25,536	19,986	23,245

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

	1982	1981*	1980*
Cash Provided:			
From Operations			
Net income	**$ 39,102**	$ 7,898	$ 30,553
Depreciation and amortization	**15,960**	13,955	12,305
Allowances relating to non-current receivables	**—**	4,300	—
Deferred income taxes and other	**5,236**	(1,168)	3,587
Working capital provided from operations	**60,298**	24,985	46,445
(Increase) decrease in working capital required for operations			
(Increase) in receivables	**(55,304)**	(6,983)	(24,815)
(Increase) decrease in inventories	**(44,977)**	1,618	(18,892)
(Increase) in prepaids and deferred tax benefits	**(8,693)**	(3,993)	(5,918)
Increase in payables and accrued liabilities	**49,359**	14,545	18,998
Increase (decrease) in income taxes payable	**30,559**	(17,309)	6,888
Increase in working capital required for operations	**(29,056)**	(12,122)	(23,739)
Cash provided from operations	**31,242**	12,863	22,706
From Other Activities			
Short-term borrowing — net change	**(6,975)**	15,212	(1,703)
Long-term debt borrowing	**1,964**	1,880	73,434
Issuance of preferred stock for acquisition	**—**	—	60,416
Exercise of stock options and warrants	**421**	2,593	674
Property, plant and equipment disposals	**2,272**	3,909	—
Divestitures of businesses	**—**	7,019	6,258
Cash provided from other activities	**(2,318)**	30,613	139,079
Total cash provided	**28,924**	43,476	161,785
Cash Used For:			
Property, plant and equipment additions	**(22,555)**	(17,547)	(15,984)
Long-term debt retirement	**(10,396)**	(10,989)	(1,882)
Dividends	**(10,992)**	(10,866)	(7,540)
Acquisition of Western Publishing Company			
Working capital exclusive of cash	**—**	—	(111,729)
Property, equipment and other non-current items	**—**	—	(57,726)
Long-term debt assumed	**—**	—	50,200
Other acquisitions	**—**	(2,466)	(12,292)
Other	**(1,523)**	136	(1,379)
Total cash used	**(45,466)**	(41,732)	(158,332)
Increase (Decrease) in Cash	**$(16,542)**	$ 1,744	$ 3,453

The accompanying notes are an integral part of these statements.
**Restated*

Issuance of preferred stock for acquisition	2,417	—	57,999	—	—
Exercise of stock options	—	54	508	—	—
Exercise of common stock warrants	—	28	112	(28)	—
Cash dividends —					
Common stock	—	—	—	—	(4,761)
Preferred stock	—	—	—	—	(2,779)
Balance, February 2, 1980	2,417	15,886	88,566	4,940	95,865
Net income	—	—	—	—	7,898
Exercise of stock options	—	93	560	—	—
Exercise of common stock warrants	—	485	1,940	(485)	—
Cash dividends —					
Common stock	—	—	—	—	(4,824)
Preferred stock	—	—	—	—	(6,042)
Balance, January 31, 1981	2,417	16,464	91,066	4,455	92,897
Net income	—	—	—	—	39,102
Exercise of stock options	—	65	349	—	—
Exercise of common stock warrants	—	2	7	(2)	—
Cash dividends —					
Common stock	—	—	—	—	(4,950)
Preferred stock	—	—	—	—	(6,042)
Balance, January 30, 1982	$2,417	$16,531	$91,422	$4,453	$121,007

The accompanying notes are an integral part of these statements.

Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include the accounts of Mattel, Inc. (the Company) and all significant subsidiaries. All significant intercompany accounts and transactions are eliminated.

Inventories — Inventories, net of an allowance for obsolescence, are stated at the lower of cost or market. Cost is determined by the annual average and first-in, first-out methods.

Prepaid Expenses — Advertising costs related to certain printed products distributed in several installments are amortized as each installment is sold. Purchased art and editorial costs and advance royalty payments related to published works are amortized as publications are sold.

Tooling — Tooling costs related to toy products are classified as inventories and amortized over the shorter of the useful lives of the tools or the estimated product lives (not to exceed two years) with the majority of the amortization in the first year.

Property, Plant and Equipment — Property, plant and equipment, including major improvements, are recorded at cost and generally are depreciated on the straight-line method over estimated useful lives of 15 to 40 years for buildings, 3 to 10 years for machinery and equipment, and 10 to 20 years (not to exceed the lease term) for leasehold improvements.

Capitalized leases are recorded at the original present value of future minimum lease payments and generally are depreciated on the straight-line method over the term of each lease.

Intangibles — Cost in excess of net assets of subsidiaries purchased subsequent to 1970 is amortized on a straight-line basis over lives not exceeding 40 years. Accumulated amortization at January 30, 1982 is $1,560,000.

Cost in excess of net assets of subsidiaries purchased before that date ($6,319,000) is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension Plans — Pension costs are accrued based on actuarial determinations and generally are funded on a similar basis. The amount funded is not less than the minimum required under federal law nor more than the maximum amount deductible for federal income tax purposes. Prior service costs are being amortized over a 30 year period.

Income Taxes — Deferred income taxes are recorded in the consolidated financial statements when revenues and expenses are reported in different periods for financial statement purposes than for income tax purposes. Deferred income taxes also include the federal and foreign income taxes which would have been payable if the undistributed earnings of foreign subsidiaries had been remitted at the end of the fiscal year. Investment tax credits are recognized as a reduction of the provision for income taxes in the year in which they become available for tax purposes.

Foreign Currency Translation — Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year-end exchange rates except for inventories and property, plant and equipment which are translated at approximate exchange rates prevailing when these assets were acquired. Income and expense items are translated at the weighted average rates of exchange prevailing during the year except for cost of sales and depreciation which are translated at historical rates. Currency translation gains and losses are included in earnings on a current basis.

Income Per Share — Primary income per share is computed based upon the weighted average number of common and common equivalent shares outstanding during each fiscal year. Common equivalent shares represent the number of shares which would be issued assuming the exercise of the common stock warrants and dilutive stock options reduced by the number of shares which could be purchased with certain proceeds from the exercise of those warrants and options. Under the terms of the subordinated debt indenture, the proceeds obtained from exercise of the common stock warrants must be used to retire outstanding subordinated debentures. To determine income for the purpose of the income per share computation, net income is increased by estimated net interest savings relating to debt assumed to have been retired with the proceeds from the exercise of the warrants. Net income is reduced by preferred dividends for the computation of primary income per share.

Fully diluted income per share for fiscal 1982 and 1980 assumes that convertible preferred stock was converted at the date of issuance into 5,123,213 common shares. The fully diluted income per share computation for fiscal 1981 does not assume conversion of the convertible preferred stock because the results would be anti-dilutive.

Changes in Presentation — As of January 30, 1982, the Company changed its presentation of the consolidated statement of changes in financial position from a working capital format to a cash format. In the opinion of management, the new format represents a more meaningful presentation of the Company's sources and uses

ments have been reclassified to conform to the presentation used for fiscal 1982.

Note 2

Acquisitions and Divestitures

Acquisitions — The Company made the following acquisitions during fiscal 1980 and 1981. All have been accounted for by the purchase method.

(In thousands)	Purchase Price	Cost in Excess of Net Assets	
		Amount	Amortization Period
Fiscal 1980			
Western Publishing Company, Inc.	$122,000	$10,643	40 years
Shipstads & Johnson Ice Follies, Inc. and Holiday on Ice, Inc.	$12 000 in cash plus assumption of certain obligations	$ 7,900	40 years
Fiscal 1981			
Remaining minority interest in Hong Kong subsidiaries	$2,500 in cash	$ 1,000	10 years

Acquisition of Western — The purchase of the outstanding stock of Western Publishing Company, Inc. (Western) in June 1979 was made for cash of $61,000,000 and 2,417,000 shares of $25 Series A convertible preferred stock. The purchase price was allocated to acquired assets and liabilities based on the fair value of the net assets acquired.

Divestitures — The Company made the following divestitures of assets during fiscal 1980 and 1981 at terms which approximated book value.

(In thousands)	Terms of Divestitures
Fiscal 1980	
Metaframe Corporation	Cash of $6,300 and notes receivable of $7,300.
Fiscal 1981	
A & A Die Casting Co	Cash and note receivable.
Kable Printing Company	Cash and the assumption of certain liabilities

During fiscal 1981, two of the three buyers of the assets of Metaframe Corporation (Metaframe) were granted protection under the Federal Bankruptcy Code. Allowances for collectibility of approximately $5,900,000 were provided during fiscal 1981 against the notes and other related receivables.

Metaframe losses before income taxes of approximately $5,600,000 are included in consolidated results of operations for fiscal 1980.

Subsequent to January 30, 1982, the Company sold Ringling Bros.-Barnum & Bailey Combined Shows, Inc. (Ringling) for $22,800,000 cash to a company organized by former senior management of Ringling. The sale price approximated book value including intangible assets of $11,300,000 ($4,000,000 acquired prior to 1970). The Company used part of the proceeds to reduce outstanding indebtedness. The results of operations of Ringling and its wholly-owned subsidiary Ice Follies and Holiday on Ice, Inc. are not material to the consolidated results of operations.

Note 3

Long-Term Liabilities and Credit Lines

Long-Term Loans — Long-term loans consist of the following:

(In thousands)	1982	1981
Bank term loans, payable fiscal 1984 through fiscal 1990	$ 73,400	$ 73,434
9½% secured term loan, payable $6,667,000 in fiscal 1983, balance in fiscal 1984	10,000	16,667
10% Malaysian term loan secured by land and building, payable fiscal 1985 through 1991	1,964	—
6¾% note secured by land and building, due through fiscal 1988	847	918
Unsecured debt of Western		
9⅝% notes, payable $1,300,000 annually through fiscal 1995, balance in fiscal 1996	18,700	20,000
9½% notes, payable $1,400,000 annually fiscal 1986 through 1998, balance in fiscal 1999	20,000	20,000
8⅝% note, payable $600,000 annually through fiscal 1986, balance in fiscal 1987	7,000	7,600
5¾% note, payable $1,000,000 in fiscal 1983	1,000	2,000
	132,911	140,619
Less: Current portion	9,643	9,638
	$123,268	$130,981

The bank term loans were obtained in connection with the acquisition of Western and the Ice Shows (see Note 2). During fiscal 1982, the bank term loan agreement was amended to provide for repayment in twenty-four consecutive quarterly installments commencing April 30, 1983 and a reduction of interest rates to the bank prime rate plus ¾% during the first thirty-three months and a gradual increase in interest rates

thereafter. The amendment also provides the Company with the option to fix interest rates for varying periods of time by conversion to Eurodollar borrowings tied to the London Interbank Rate.

The 9½% term loan of $10,000,000 is secured by certain tangible personal property of Circus World.

With respect to the bank term loans, the Company has agreed to meet various financial requirements including the maintenance of certain levels of tangible net worth and certain ratios of liabilities to tangible net worth and current assets to current liabilities.

Subordinated Debentures — The 10% subordinated debentures require sinking fund payments of ten percent of the principal amount outstanding on April 15 of each year from 1983 through 1985 with the balance due on April 5, 1986. The subordinated debt indenture requires that any proceeds from the exercise of common stock warrants be used to retire outstanding subordinated debentures. Additionally, the indenture contains provisions which, among other things, limit the amount of dividends which can be paid and the amount of common stock which can be redeemed.

Scheduled Maturities — The aggregate amounts of long-term liabilities maturing in the next five fiscal years are as follows (by fiscal year):

(In thousands)	Long-Term Loans	Capitalized Lease Obligations	Subordinated Debentures	Total
1983	$ 9,643	$590	$ —	$10,233
1984	8,463	641	982	10,086
1985	13,392	697	884	14,973
1986	13,749	758	796	15,303
1987	17,755	825	7,163	25,743

Domestic Credit Lines — The Company negotiates bank credit agreements for seasonal financing requirements each year. The agreements in effect during fiscal 1982 provided a domestic credit line of $250,000,000 through May 31, 1982 with interest at bank prime rates. The Company is presently negotiating its annual domestic credit agreements for fiscal 1983.

Foreign Credit Lines — The Company's foreign subsidiaries have total bank credit lines of approximately $85,000,000 of which $59,000,000 are guaranteed by the Company.

Compensating Balance Arrangements — Under the domestic credit lines in effect during fiscal 1982, the Company was required to maintain average compensating balances of 3% of the credit line plus an additional 5% of average usage. The term loan and foreign credit lines do not require compensating balances.

Supplemental Information — Additional information relating to the domestic and foreign seasonal credit lines (exclusive of Western for fiscal 1980) is summarized in the following table:

(In thousands)	1982	1981	1980
Balance at the end of the fiscal year			
Domestic	$ —	$ —	$ —
Foreign	16,992	23,967	8,755
Maximum amount outstanding during the fiscal year			
Domestic	232,600	210,100	145,000
Foreign	56,600	46,700	39,400
Average borrowings during the fiscal year			
Domestic	121,000	106,000	71,000
Foreign	43,000	30,500	20,400
Weighted average interest rate, computed monthly			
Domestic	17.8%	13.5%	12.5%
Foreign	16.6%	13.3%	10.3%

Subsequent to the acquisition of Western in fiscal 1980, the Company renegotiated Western's credit agreements for their fiscal 1980 domestic seasonal working capital requirements. The revised agreements provided a separate line of credit for Western of $29,800,000 through December 31, 1979 with interest at bank prime rates. Average borrowings from the date of acquisition to December 31, 1979 under these credit lines was approximately $12,400,000 at a weighted average interest rate, computed monthly, of 13%. The maximum borrowings under these lines was $22,000,000, all of which was repaid prior to the fiscal year-end.

Note 4

Income Taxes

The provision for income taxes consists of the following:

(In thousands)	1982	1981	1980
Current —			
Federal	$22,800	$ (700)	$17,500
State	3,500	2,100	2,900
Foreign	15,500	9,100	10,600
	41,800	10,500	31,000
Deferred —			
Federal	(5,500)	(2,500)	(600)
State	(500)	(600)	100
Foreign	1,000	1,500	—
	(5,000)	(1,600)	(500)
	$36,800	$ 8,900	$30,500

	1982	1981	1980
Accelerated tax depreciation	$ 1,400	$ 1,500	$ 1,500
Undistributed earnings of foreign subsidiaries	800	1,400	500
Allowances relating to non-current receivables	2,000	(2,300)	—
Inventory reserves	(1,700)	(3,000)	(400)
Accrued expenses not currently deductible	(7,800)	200	(2,600)
Other, net	300	600	500
	$(5,000)	$(1,600)	$ (500)

The difference between the federal statutory income tax rate and the effective rate in the consolidated statements of income is as follows:

(In thousands)	1982	1981	1980
Provision — federal statutory rate (46%)	$34,900	$7,700	$28,100
Increase (decrease) resulting from:			
State and local income taxes, net of federal income tax benefit	1,600	800	1,600
Foreign subsidiary expenses not resulting in tax benefits	2,100	1,400	1,000
Investment tax credits	(900)	(800)	(1,200)
Research and development tax credits	(700)	—	—
Other	(200)	(200)	1,000
Provision — effective rate (48.5% in 1982, 53.0% in 1981 and 50.0% in 1980)	$36,800	$8,900	$30,500

The Internal Revenue Service has completed its examination of the Company's federal income tax returns for fiscal years 1973 through 1977 and is currently examining the returns for fiscal years 1978 through 1980. In the opinion of management, resolution of proposed adjustments resulting from the completed examinations will not have a materially adverse effect on the Company's consolidated financial position.

Note 5

Shareholders' Equity

Outstanding Shares — Total number of shares outstanding at the end of each fiscal year is as follows:

	1982	1981
$25 Series A Convertible Preferred Stock	2,416,493	2,416,610
Common Stock	16,530,770	16,463,958

[illegible] deemed in cumulative annual increments of 605,000 shares at an initial price of $27.50 per share decreasing to $25.00 per share in June 1986. Outstanding preferred shares have a preference on voluntary liquidation of the Company of $27.50 per share ($66,500,000 in aggregate).

Common Stock Warrants — At January 30, 1982 warrants to purchase 4,452,928 shares of the Company's common stock at $4.00 per share are exercisable and expire on April 5, 1986.

Stock Options — As of January 30, 1982, a total of 18,500 shares of common stock were reserved for issuance to officers and other key employees under two qualified stock option plans adopted in fiscal 1969 and 1970. Further grants under the qualified stock option plans were suspended during fiscal 1979 and the shares of common stock reserved for these plans at January 30, 1982 relate only to options outstanding on that date. In October 1981, outstanding options under the qualified stock option plans were converted to incentive stock options to the extent permitted by the Economic Recovery Tax Act of 1981. As of January 30, 1982, a total of 675,925 shares were reserved for issuance to officers and other key employees under a non-qualified stock option plan adopted in fiscal 1979. Of the shares reserved for issuance under the non-qualified plan, 86,125 shares were available for future grant at January 30, 1982. All of the plans provide that options shall be granted at not less than fair market value of the stock on the date of grant.

The options granted under the qualified stock option plans expire five years from date of grant and the options granted under the non-qualified stock option plan expire ten years from date of grant. All options are contingent upon continued employment and are exercisable in installments as determined by the Board of Directors or its Stock Option Committee.

The following is a summary of the stock option information for fiscal 1982:

	Options Outstanding	
Qualified plans	Shares	Price
Outstanding at January 31, 1981	77,250	$5.63 to $9.25
Exercised	(56,750)	5.63 to 8.75
Expired or cancelled	(2,000)	7.50
Outstanding at January 30, 1982	18,500(1)	$7.50 to $9.25

(1) Average purchase price — $9.[illegible] per share. Expiration dates vary from October 1982 to March 1983. Includes options for 18,500 shares exercisable as of January 30, 1982.

Non-qualified plan	Shares	Price
Outstanding at January 31, 1981	573,625	$7.00 to $13.50
Granted	106,500	7.38 to 12.00
Exercised	(8,200)	7.75 to 8.50
Cancelled	(82,125)	7.38 to 11.25
Outstanding at January 30, 1982	589,800(2)	$7.00 to $13.50

(2) *Average purchase price — $9.26 per share. Expiration dates vary from November 1988 to December 1991. Includes options for 261,300 shares exercisable as of January 30, 1982.*

Retained Earnings — None of the retained earnings of the Company are restricted as to the payment of dividends at January 30, 1982. Transfer of funds to the Company through intercompany loans, advances and cash dividends by certain subsidiary companies are restricted by agreements with third party lenders and by foreign currency controls. At January 30, 1982, net assets of subsidiaries in the amount of $149,900,000 were subject to such restrictions.

Note 6

Commitments

Leases — Major categories of capitalized leases are as follows:

(In thousands)	1982	1981
Land	$ 1,817	$ 1,817
Buildings	10,387	12,150
Machinery and equipment	2,006	2,006
	14,210	15,973
Less: Accumulated depreciation	6,491	7,650
	$ 7,719	$ 8,323

Rental expense relating to operating leases amounted to $26,595,000, $23,690,000 and $19,846,000 in fiscal 1982, 1981 and 1980, respectively, net of sublease income of $2,036,000, $2,344,000 and $1,702,000.

Minimum future obligations under lease commitments in effect at January 30, 1982 are as follows (by fiscal year):

(In thousands)	Capitalized Leases	Operating Leases
1983	$ 2,000	$10,000
1984	2,000	8,900
1985	2,000	6,900
1986	2,000	5,500
1987	2,000	4,500
Thereafter	20,100	10,400
	30,100(1)	46,200
Less: Sublease commitments	2,500	2,600
	$27,600	$43,600

(1) *Includes approximately $15,000,000 of imputed interest.*

Note 7

Employee Benefits

The Company and certain of its subsidiaries have non-contributory pension plans covering substantially all employees of these companies. The cost of these plans was $3,900,000, $7,000,000 and $5,440,000 in fiscal 1982, 1981 and 1980, respectively. During fiscal 1982, the actuarial assumptions of several pension plans, relating to assumed rate of return and salary increases used in computing pension cost, were revised based on recommendations of the Company's actuaries, the effect of which was to decrease fiscal 1982 pension expense by approximately $1,400,000. Accumulated plan benefits and plan net assets for the Company's pension plans determined as of January 1, 1982 and 1981, respectively, are presented below:

(In thousands)	1982	1981
Actuarial present value of accumulated plan benefits —		
Vested	$40,400	$37,000
Non-vested	3,600	3,300
	$44,000	$40,300
Market value of assets available for benefits	$56,900	$53,800

The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7 percent.

The Company and certain of its domestic subsidiaries have thrift savings plans available to employees shortly after initial employment. Certain participants' contributions are supplemented by Company contributions. Company contributions amounted to $1,688,000, $1,546,000 and $1,152,000 in fiscal 1982, 1981 and 1980, respectively.

The Company has a discretionary incentive plan for compensation of certain key employees based on performance. The awards, approved by the Board of Directors and included in administrative expenses, approximated $6,100,000, $350,000 and $3,600,000 in fiscal 1982, 1981 and 1980, respectively.

Note 8

Litigation and Contingencies

In February 1981, a purported class action complaint was initiated by two former Mattel shareholders against the Company and certain of its officers and employees. The complaint alleged, among other things, violation by the defendants of the antifraud provisions of the federal securities laws and sought rescission and/or unspecified damages on behalf of the plaintiffs and the class of persons similarly situated

Company and the balance by an insurance carrier.

The Company is engaged in a number of other legal actions related to the conduct of its business, none of which actions is presently expected to result in a judgment which would have a materially adverse effect on the Company's consolidated financial position.

Note 9

Supplemental Financial Information

(In thousands)	1982	1981
Inventories include the following:		
Raw materials and work in process	$117,619	$ 82,808
Finished goods	78,600	68,434
	$196,219	$151,242
Accrued liabilities include the following:		
Salaries and wages	$ 23,890	$ 16,798
Advertising and promotion	19,921	8,679
Product warranties	21,880	10,675
Other	33,861	32,433
	$ 99,552	$ 68,585

(In thousands)	1982	1981	1980
Cost and expenses include the following:			
Maintenance and repairs	$ 10,714	$ 9,103	$ 6,769
Royalties	14,994	10,168	9,447
Advertising and promotion	127,260	96,779	69,393
Research and development	24,588	22,692	17,805
Provision for doubtful accounts	13,579	20,424	7,387

During fiscal 1981, the Company entered into an agreement which provided for the exchange of certain hand-held electronic games valued at $11,800,000 for cash of $5,500,000 and future media advertising benefits. Future media advertising benefits were recorded at the lower of the estimated value of media time expected to be received or the cost of products exchanged. No profit or loss resulted from this transaction.

At January 30, 1982 future media advertising benefits of approximately $2,400,000 are included in working capital and approximately $3,700,000 of media benefits not expected to be used ... advertising time equal to the media time being offered.

Note 10

Financial Information by Business Segment and Geographic Area

The Company realigned its principal business segments in fiscal 1982. The need for this realignment came as a result of the Company's diversification efforts and growth of consumer electronics businesses through introduction of products which are directed principally to the teenage and adult markets and are not related to toys. The Company's principal business segments have been defined to consist of Toy and Hobby Products; Electronics; Publishing and Printing; and Entertainment. The Toy and Hobby Products segment manufactures and markets toys and plastic model kits; however, fiscal 1980 amounts also include the results of operations related to pet products subsidiaries, which were sold during that year (see Note 2). The Electronics segment manufactures and markets electronic products and services worldwide for home and family. The Publishing and Printing segment publishes books, manufactures leisure-related consumer products and engages in commercial printing. The Entertainment segment consists of the traveling circuses and ice shows (sold subsequent to January 30, 1982) and the Circus World theme park in Orlando, Florida.

Operating profit (loss) represents income (loss) before income taxes, interest expense, minority interest, and general corporate income and expenses. Sales between business segments and geographic areas are based upon prices which include manufacturing cost and profit.

The Company's foreign operations consist of marketing and manufacturing subsidiaries located principally in Western Europe, Canada and the Orient. These subsidiaries accounted for approximately $42,400,000, $18,000,000 and $20,500,000 of consolidated income before income taxes in fiscal 1982, 1981 and 1980, respectively. Consolidated liabilities of these subsidiaries were approximately $85,200,000 at January 30, 1982 and $58,800,000 at January 31, 1981.

Information by business segment and geographic area is set forth below. Information by business segment for fiscal 1981 and fiscal 1980 have been restated to conform to the Company's present classification of business segments.

By Business Segment (In thousands)	Net Sales	Operating Profit (Loss)	Identifiable Assets	Depreciation and Amortization	Capital Expenditures
Fiscal 1982					
Toy and Hobby Products	$ 503,497	$ 65,522	$217,520	$ 6,832	$13,115
Electronics	287,626	73,067	148,142	266	1,919
Publishing and Printing	277,870	10,470	205,304	5,299	4,753
Entertainment	77,306	(1,076)	56,038	3,333	2,183
	1,146,299	147,983	627,004	15,730	21,970
Intersegment sales and transfers	(12,047)	—	—	—	—
Interest expense	—	(51,394)	—	—	—
Corporate and other	—	(20,687)	20,430	230	585
Consolidated total	$1,134,252	$ 75,902	$647,434	$15,960	$22,555
Fiscal 1981 (Restated)					
Toy and Hobby Products	$ 447,089	$ 41,172	$203,123	$ 4,882	$ 8,882
Electronics	119,309	7,304	59,990	67	340
Publishing and Printing	267,503	19,368	211,605	5,503	4,602
Entertainment	81,789	2,354	57,366	3,250	3,398
	915,690	70,198	532,084	13,702	17,222
Interest expense	—	(38,999)	—	—	—
Corporate and other	—	(14,401)	18,409	253	325
Consolidated total	$ 915,690	$ 16,798	$550,493	$13,955	$17,547
Fiscal 1980* (Restated)					
Toy and Hobby Products	$ 437,298	$ 44,367	$202,991	$ 4,644	$ 8,123
Electronics	92,858	25,820	39,937	41	118
Publishing and Printing	200,438	23,892	220,191	4,602	5,135
Entertainment	74,450	4,103	59,080	2,854	2,475
	805,094	98,182	522,199	12,141	15,851
Intersegment sales and transfers	(30)	—	—	—	—
Interest expense	—	(27,182)	—	—	—
Corporate and other	—	(9,947)	25,519	164	133
Consolidated total	$ 805,064	$ 61,053	$547,718	$12,305	$15,984

By Geographic Area (In thousands)	Net Sales	Operating Profit	Identifiable Assets
Fiscal 1982			
United States	$ 958,021	$96,688	$477,140
Western Europe	91,909	6,360	51,458
Other foreign operations	288,985	44,935	98,406
	1,338,915	147,983	627,004
Sales and transfers between geographic areas	(204,663)	—	—
Interest expense	—	(51,394)	—
Corporate and other	—	(20,687)	20,430
Consolidated total	$1,134,252	$75,902	$647,434
Fiscal 1981			
United States	$ 769,039	$47,244	$417,906
Western Europe	98,971	7,967	55,616
Other foreign operations	151,626	14,987	58,562
	1,019,636	70,198	532,084
Sales and transfers between geographic areas	(103,946)	—	—
Interest expense	—	(38,999)	—
Corporate and other	—	(14,401)	18,409
Consolidated total	$ 915,690	$16,798	$550,493
Fiscal 1980*			
United States	$ 673,601	$74,433	$420,560
Western Europe	98,875	15,653	52,283
Other foreign operations	101,091	8,096	49,356
	873,567	98,182	522,199
Sales and transfers between geographic areas	(68,503)	—	—
Interest expense	—	(27,182)	—
Corporate and other	—	(9,947)	25,519
Consolidated total	$ 805,064	$61,053	$547,718

*Includes results of operations of Western Publishing Company, Inc. since June 1, 1979, the date of acquisition.

(continued)

(In thousands except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1982				
Net sales	$191,047	$259,073	$373,527	$310 605
Gross profit	67,553	100,765	152,789	130,460
Net income (loss)	(4,208)	6,315	20,289	16,706
Net income (loss) per share:				
Primary	$(.35)	$.25	$.96	$.76
Fully diluted	(.35)	.25	.82	.66
Average common and common equivalent shares outstanding:				
Primary	16,468	19,854	19,718	20,151
Fully diluted	16,468	19,854	24,875	25,532
Common Stock Market Price:				
High	$10.38	$10.00	$9.25	$13.75
Low	8.25	7.50	6.00	7.88
Common Stock Dividends	.075	.075	.075	.075
Fiscal 1981				
Net sales	$187,428	$230,277	$292,623	$205,362
Gross profit	68,859	90,805	114,984	52,508
Net income (loss)	1,527	8,028	13,811	(15,468)
Net income (loss) per share:				
Primary	$.00	$.34	$.61	$(1.04)
Fully diluted	.00	.32	.55	(1.04)
Average common and common equivalent shares outstanding:				
Primary	15,944	19,715	20,372	16,374
Fully diluted	15,944	25,246	25,498	16,374
Common Stock Market Price:				
High	$10.25	$11.88	$15.13	$16 75
Low	6.38	7.13	10 38	9 25
Common Stock Dividends	.075	.075	.075	.075
Fiscal 1980*				
Net sales	$117,368	$192,265	$291,088	$204,343
Gross profit	41,039	69,596	108,953	68,215
Net income	1,787	5,654	16,215	6,897
Net income per share:				
Primary	$.10	$.25	$.75	$.28
Fully diluted	.10	.25	.65	.28
Average common and common equivalent shares outstanding:				
Primary	19,892	19,970	19,882	19,602
Fully diluted	19,892	23,010	25,005	24,977
Common Stock Market Price:				
High	$9 88	$10.75	$10 50	$9.38
Low	6.63	7.88	6 63	6 75
Common Stock Dividends	.075	.075	.075	.075

*Includes results of operations of Western Publishing Company, Inc. since June 1, 1979, the date of acquisition.

Due to seasonality of the Company's earnings and fluctuation in the Company's common stock price, the sum of income per share amounts reported for each of the four quarters may not equal income per share reported for the fiscal year.

Financial Data Adjusted for Changing Prices (Unaudited)

The Company's consolidated financial statements are prepared based upon the historical prices in effect when the transactions occurred. The following supplementary information reflects certain specific effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33. Financial Reporting and Changing Prices, issued by the Financial Accounting Standards Board.

The effects of inflation on income have been measured in two ways. The first measurement is of the effects of general inflation which was determined by using the Consumer Price Index for all Urban Consumers to recompute cost of sales and depreciation. The second approach is more specific in that it measures inflation by recomputing cost of sales and depreciation using the current cost of inventory and property, plant and equipment, rather than the historical cost of such assets.

The following information also presents the Company's position resulting from holding an excess of monetary liabilities (payables and debt) over monetary assets (cash and receivables). The change in this position and change in the general price level during the year are reflected in the amount of purchasing power gain or loss. As required by Statement of Financial Accounting Standards No. 33, no adjustment has been made to income tax expense to reflect the reductions in income before income tax resulting from the restatements of depreciation and costs of sales.

Supplementary Five-Year Comparison of Selected Financial Data Adjusted For the Effects of Changing Prices in Average Fiscal 1982 Dollars (Unaudited)

(Dollars in thousands except per share amounts)	1982	1981	1980	1979	1978
Historical cost information as originally reported					
Net sales	$1,134,252	$ 915,690	$ 805,064	$493,563	$436,645
Net income	39,102	7,898	30,553	30,061	28,837
Net income per share (primary)	1.68	.12	1.38	1.54	1.56
Net assets at fiscal year-end	235,830	207,299	207,674	*	*
Cash dividends per common share	.30	.30	.30	.225	—
Market price per common share at fiscal year-end	13.25	9.63	9.25	7.63	7.50
Historical cost information adjusted for general inflation(1)					
Net sales	$1,134,252	$1,007,900	$1,004,078	$687,371	$655,871
Net income (loss)	18,802	(16,293)	19,772	*	*
Net income (loss) per share (primary)	.66	(1.43)	.80	*	*
Net assets at fiscal year-end	279,500	266,300	290,500	*	*
Cash dividends per common share	.30	.33	.37	.31	—
Market price per common share at fiscal year-end(2)	13.25	10.44	11.20	10.53	11.31
Purchasing power gain on net monetary liabilities held during the year	11,100	15,300	13,200	*	*
Current cost information					
Net income (loss)	$ 19,902	$ (13,101)	$ 18,275	*	*
Net income (loss) per share (primary)	.72	(1.23)	.73	*	*
Net assets at fiscal year-end	283,600	272,700	303,000	*	*
Increase (decrease) in current costs of inventory and property, plant and equipment held during the fiscal year, net of general inflation	5,800	(4,200)	6,800	*	*
Average level of the Consumer Price Index for all Urban Consumers	274.2	249.1	219.8	1[illegible]9	1[illegible]5

(1) Based upon changes in the Consumer Price Index for all Urban Consumers
(2) In fiscal 1982 year end dollars
*Amounts for periods prior to adoption of Statement of Financial Accounting Standards No. 33 are not required to be disclosed

Statements
(continued)

Net Income As Reported In The Consolidated Statements Of Income	$ 39,102
Adjustments To Restate Selected Costs For The Effects Of General Inflation	
Depreciation	(5,500)
Cost of sales other than depreciation	(14,800)
Net Income After Adjustment For The Effects Of General Inflation (In Average Fiscal 1982 Dollars)	18,802
Adjustments To Restate Selected Costs For The Effects Of The Difference Between General Inflation And Changes In Specific Prices (Current Costs)	
Depreciation	(300)
Cost of sales other than depreciation	1,400
Net Income After Adjustment For The Effects Of Changes In Specific Prices (Current Costs)	$ 19,902
Purchasing Power Gain From Net Monetary Liabilities Held During The Year	$ 11,100
Increase In Current Costs Of Inventory And Net Property, Plant And Equipment Held During The Year	$ 31,300
Less: General Inflation	(25,500)
Increase, net of general inflation	$ 5,800
Current Cost Valuations At January 30, 1982	
Inventory (historical cost $196,219,000)	$197,700
Net property, plant and equipment (historical cost $123,758,000)	$178,400

Responsibilities for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles and in the opinion of Management present fairly the Company's financial position, results of operations and changes in financial position. The financial statements necessarily contain some amounts that are based on the best estimates and judgments of Management.

The Company maintains accounting and internal control systems which Management believes are adequate to provide reasonable assurance, in relation to reasonable cost, that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements. The selection and training of qualified personnel, the establishment and communication of accounting and administrative policies and procedures, and a program of internal audit are important elements of these control systems.

The Company's internal auditors are directed to examine the adequacy and effectiveness of the Company's system of internal accounting, administrative and operational controls. They conduct formal systematic reviews of operations to determine that existing and proposed data processing systems and operations are adequately controlled and to assure that assets are effectively safeguarded.

The Board of Directors has appointed a Financial Controls and Audit Committee, composed entirely of non-employee directors. The Committee meets regularly with financial management, internal auditors and the independent accountants to review accounting control, auditing and financial reporting matters.

Price Waterhouse, independent accountants, are retained to examine the financial statements. Their report on the examinations of the accompanying financial statements is shown below. This report states that the examinations were made in accordance with generally accepted auditing standards. These standards do not include a study and evaluation of internal control for the purpose of expressing an opinion thereon but do include a study and evaluation for the purpose of establishing a basis for reliance thereon relative to the scope of their examinations of the financial statements.

Report of Independent Accountants

To the Board of Directors and Shareholders of Mattel, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Mattel, Inc. and its subsidiaries at January 30, 1982 and January 31, 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 30, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Los Angeles, California
March 17, 1982

Price Waterhouse

	hospital and nursing home operations
Robert S. Ehrlich	Merchant banker, principal in R. S. Ehrlich & Company
Donald E. Farrar	Executive Vice President and director, Benham Management Corporation
Ronald M. Loeb	Attorney, a partner in the firm of Irell & Manella
Thomas S. Loo	Attorney, a partner in the firm of Loo, Merideth & McMillan
Patricia L. Neighbors	Consultant, retired Vice President, Avon Products, Inc.
Murray L. Schwartz	Professor of Law, University of California, Los Angeles
Everett G. Smith	President, Albert Trostel & Sons Company, leather tanners
Arthur S. Spear	Chairman and Chief Executive Officer, Mattel, Inc.
Robert S. Warner	Accountant, retired partner, Coopers & Lybrand
R. Douglas Ziegler	President and Chief Executive Officer, The Ziegler Company, Inc., financial services holding company

Committees

Executive Committee/ Compensation Committee

Everett G. Smith — Chair
Robert E. Anderson
Peter de Wetter
Arthur S. Spear
Robert S. Warner

Nominating Committee

Murray L. Schwartz — Chair
Donald E. Farrar
Patricia L. Neighbors
Arthur S. Spear
R. Douglas Ziegler

Financial Controls and Audit Committee

Robert S. Warner — Chair
Robert S. Ehrlich
Thomas S. Loo
R. Douglas Ziegler

Public Responsibility Committee

Patricia L. Neighbors — Chair
Robert E. Anderson
Robert S. Ehrlich
Donald E. Farrar
Ronald M. Loeb

Pension Committee

Everett G. Smith
R. Douglas Ziegler

Corporate Officers

Arthur S. Spear	Chairman and Chief Executive Officer
Robert E. Anderson	President and Chief Operating Officer
Kenneth T. Creed	Senior Vice President and Chief Financial Officer
Raymond W. Ferris	Senior Vice President-Corporate Development and Secretary
John D. Jones	Senior Vice President-Administration
Spencer C. Boise	Vice President-Corporate Affairs
Mark D. Goldman	Vice President-Assistant to the Chairman and Chief Executive Officer
Dennis F. Hightower	Vice President-Strategic Planning
Ben J. Little	Vice President and Treasurer
Jerry E. Neal	Vice President-Corporate Controller
Timothy P. Reames	Vice President-General Counsel
Donald D. Sawyer	Vice President-Mattel Communications

Principal Operating Companies

Mattel Toys, Hawthorne, California — Raymond P. Wagner, *President*
Mattel Toys U.S.A. — Glenn A. Hastings, *President*
Mattel Toys International — John W. Amerman, *President*
Mattel Electronics, Hawthorne, California — Joshua W. Denham, *President*
Monogram Models, Inc., Morton Grove, Illinois — Thomas A. Gannon, *President*
Circus World, Inc., Orlando, Florida — James G. Murphy, *President*
Western Publishing Company, Inc., Racine, Wisconsin

Corporate Data

Transfer Agent and Registrar

(Mattel, Inc. Common Stock and $25 Series A Convertible Preferred Stock)
The First National Bank of Boston
Shareholder Services Division
P.O. Box 644, Boston, Massachusetts 02102

Warrant Agent

The First National Bank of Boston
Shareholder Services Division
P.O. Box 644, Boston, Massachusetts 02102

Debenture Trustee

Title Insurance and Trust Company
700 Wilshire Boulevard
Suite 400
Los Angeles, California 90017

Stock Exchange Listings

(Mattel, Inc. Common Stock, $25 Series A Convertible Preferred Stock and Warrants)
New York and Pacific Stock Exchanges
Symbol: MAT

Annual Meeting

The Annual Meeting of Shareholders will be held June 10, 1982 at 10:00 a.m. in The Ballroom of the Beverly Wilshire Hotel, Beverly Hills, California.

Form 10-K

Mattel's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended January 30, 1982 is available upon request by writing to the Secretary of the Company at the Corporate Offices, 5150 Rosecrans Avenue, Hawthorne, California 90250.

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